

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
DECEMBER 31, 2015 AND 2014

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LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2015 and 2014

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2015 and 2014. Please read it in conjunction with the accompanying financial statements.

Financial highlights

Labette Health's net position increased by \$2,836,808 or 9.7 percent in 2015 and decreased by \$3,650,025 or 11.1 percent in 2014.

Labette Health reported an operating income of \$2,796,124 in 2015, an operating loss of \$2,163,167 in 2014, and an operating loss of \$296,052 in 2013.

Using these financial statements

Labette Health's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about Labette Health's finances is, "Is Labette Health as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about Labette Health's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report Labette Health's net position and changes in it. Labette Health's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in Labette Health's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in Labette Health's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of Labette Health.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LABETTE COUNTY MEDICAL CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2015 and 2014

Assets, liabilities, and net position

Labette Health's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 23,791,968	\$ 19,245,704	\$ 20,332,042
Assets limited as to use	12,650,712	11,626,180	10,699,642
Capital assets, net	32,207,300	36,448,190	38,573,506
Other assets	<u>407,554</u>	<u>521,678</u>	<u>1,156,904</u>
Total assets	<u>\$ 69,057,534</u>	<u>\$ 67,841,752</u>	<u>\$ 70,762,094</u>
Liabilities			
Current liabilities	\$ 7,808,379	\$ 7,718,190	\$ 7,090,495
Long-term liabilities	<u>29,195,764</u>	<u>30,906,979</u>	<u>30,804,991</u>
Total liabilities	<u>\$ 37,004,143</u>	<u>\$ 38,625,169</u>	<u>\$ 37,895,486</u>
Net position	<u>\$ 32,053,391</u>	<u>\$ 29,216,583</u>	<u>\$ 32,866,608</u>

Cash and cash equivalents in the current asset category increased by \$4,803,417 in 2015 and increased by \$1,151,491 in 2014. The changes in both years are due to cash flows from operations being more or less than the cash used by capital and related financing activities.

Net patient accounts receivable decreased by \$176,383 in 2015 and decreased by \$1,976,530 in 2014. The number of days of net revenue represented by net accounts receivable was 57 days, 63 days, and 74 days as of December 31, 2015, 2014, and 2013, respectively. The median value of similar hospitals for this ratio is 61 days.

Net capital assets decreased by \$4,240,890 in 2015 and decreased by \$2,125,316 in 2014. Capital asset acquisitions during 2015 and 2014 were funded from operating cash flow and capital lease obligations. Cash outlays for capital asset acquisitions totaled \$290,203 during 2015, of which \$176,256 (60.7 percent) was financed with capital lease obligations and the rest was paid for from operating cash flow. Cash outlays for capital asset acquisitions totaled \$2,791,962 during 2014, of which \$1,913,738 (68.5 percent) was financed with capital lease obligations and the rest was paid for from operating cash flow.

Labette Health's net position increased by \$2,836,808 or 9.7 percent in 2015 and decreased by \$3,650,025 or 11.1 percent in 2014. The percentage of total assets financed with net position, or equity, was 46.4 percent, 43.1 percent, and 46.4 percent as of December 31, 2015, 2014, and 2013, respectively.

LABETTE COUNTY MEDICAL CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2015 and 2014

Operating results and changes in net position

Labette Health's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 61,954,323	\$ 57,232,012	\$ 58,645,576
Operating expenses	<u>59,158,199</u>	<u>59,395,179</u>	<u>58,941,628</u>
Operating income (loss)	2,796,124	(2,163,167)	(296,052)
Ambulance subsidy	99,131	290,792	367,552
Interest expense	(1,710,817)	(1,745,934)	(1,743,116)
Other nonoperating revenues	626,402	(418,836)	105,864
Capital grants, contributions, and sales tax revenue	1,025,968	387,120	352,507
Transfer to County	<u> </u>	<u> </u>	<u>(227,586)</u>
Change in net position	<u>\$ 2,836,808</u>	<u>\$ (3,650,025)</u>	<u>\$ (1,440,831)</u>

The first, and most significant, component of the overall change in Labette Health's net position is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health's operating income increased by \$4,959,291 in 2015 and decreased by \$1,867,115 in 2014.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Inpatient services	\$ 50,708,929	\$ 47,815,315	\$ 49,210,139
Outpatient services	93,969,175	88,378,234	83,695,423
Physician services	<u>18,516,262</u>	<u>17,056,553</u>	<u>16,476,868</u>
Gross patient service revenue	163,194,366	153,250,102	149,382,430
Contractual adjustments	(95,408,984)	(89,483,398)	(83,070,959)
Provision for bad debts	(6,911,837)	(7,030,628)	(6,469,651)
Charity care	<u>(2,241,544)</u>	<u>(2,166,300)</u>	<u>(3,651,112)</u>
Net patient service revenue	<u>\$ 58,632,001</u>	<u>\$ 54,569,776</u>	<u>\$ 56,190,708</u>

Labette Health raised its overall charge rates by approximately 5.8 percent in 2015 and by approximately 5.4 percent in 2014. Total inpatient revenues increased by 6.1 percent during 2015. This increase was a result of the charge rate increases and a 3.7 percent increase in acute and ICU patient days in 2015. Total inpatient revenues decreased by 2.8 percent during 2014. This decrease was a result of the charge rate increases and an 11.4 percent decrease in acute

LABETTE COUNTY MEDICAL CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2015 and 2014

and ICU patient days in 2015. Outpatient revenues increased by 6.3 percent during 2015 because of charge rate increases and a 2.5 percent increase in outpatient registrations. Outpatient revenues increased by 5.6 percent during 2014 because of charge rate increases and a 1.7 percent increase in outpatient registrations. The change in physician services revenue is primarily due to changes in the number of physicians working for Labette Health.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors.

The provision for bad debts and charity care write-offs combined represent 5.6 percent, 6.0 percent, and 6.8 percent of gross patient service revenue during 2015, 2014, and 2013, respectively. These numbers are reflective of the current health care environment in which an increasing number of patients are uninsured, or insured by plans requiring higher out-of-pocket expense covered by the insured.

Employee salaries and wages decreased by \$222,538 or 0.9 percent in 2015 and increased by \$714,877 or 2.9 percent in 2014. The number of full-time equivalent employees decreased by 12.69 (2.9 percent) during 2015 and decreased by 4.13 (0.9 percent) during 2014.

The cost of employee benefits equaled 18.7 percent, 19.6 percent, and 19.7 percent of salaries and wages during 2015, 2014, and 2013, respectively. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased by 2.2 percent during 2015 and decreased by 2.5 percent during 2014. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service. Labette Health began receiving this subsidy in 2002.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health, a component unit of Labette County, Kansas, as of and for the years ended December 31, 2015 and 2014, which collectively comprise Labette Health's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Roe Nelson & Johnson LLC
Topeka, Kansas
May 25, 2016

FINANCIAL STATEMENTS

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF NET POSITION
December 31,

	ASSETS			
	2015		2014	
	Labette Health	Component units	Labette Health	Component units
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,931,633	\$ 31	\$ 5,128,216	\$ 104,536
Investments		1,171,627		1,037,812
Assets limited as to use	1,176,667		1,145,550	
Patient accounts receivable, net of allowance for uncollectible accounts of \$2,806,662 in 2015 and \$2,469,049 in 2014	9,208,395		9,384,778	
Other receivables	1,499,291		493,534	
Estimated third-party payor settlements	276		1,138,976	
Inventories	1,366,341		1,345,985	
Prepaid expenses	609,365		608,665	
Total current assets	<u>23,791,968</u>	<u>1,171,658</u>	<u>19,245,704</u>	<u>1,142,348</u>
ASSETS LIMITED AS TO USE				
Internally designated for capital assets	9,167,245		8,646,014	
Under indenture agreement - held by trustee	3,452,687		3,490,620	
By County for capital assets	1,207,447		635,096	
By contributors		477,511		390,618
	<u>13,827,379</u>	<u>477,511</u>	<u>12,771,730</u>	<u>390,618</u>
Less amounts required to meet current obligations	<u>1,176,667</u>		<u>1,145,550</u>	
	<u>12,650,712</u>	<u>477,511</u>	<u>11,626,180</u>	<u>390,618</u>
CAPITAL ASSETS, net	<u>32,207,300</u>	<u>363,454</u>	<u>36,448,190</u>	<u>385,705</u>
OTHER ASSETS				
Advances receivable	407,554		421,610	
Other		137,922	100,068	136,123
	<u>407,554</u>	<u>137,922</u>	<u>521,678</u>	<u>136,123</u>
TOTAL ASSETS	<u>\$69,057,534</u>	<u>\$ 2,150,545</u>	<u>\$67,841,752</u>	<u>\$ 2,054,794</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2015		2014	
	<u>Labette Health</u>	<u>Component units</u>	<u>Labette Health</u>	<u>Component units</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 1,785,222	\$ -	\$ 1,582,552	\$ -
Accounts payable	3,415,922	494	2,729,888	1,173
Due to Labette Health		712,385		385,204
Accrued salaries, wages, and benefits	534,717		1,484,782	
Accrued compensated absences	899,212		907,907	
Accrued interest payable	536,667		550,550	
Accrued health insurance claims	268,248		207,234	
Estimated third-party payor settlements	343,398		195,273	
Other current liabilities	24,993		60,004	
Total current liabilities	7,808,379	712,879	7,718,190	386,377
LONG-TERM OBLIGATIONS, less current maturities				
	29,195,764		30,906,979	
Total liabilities	37,004,143	712,879	38,625,169	386,377
NET POSITION				
Net investment in capital assets	3,207,522	2,555	5,984,058	11,955
Restricted				
For debt service	1,471,478		1,453,714	
Expendable for capital acquisitions	1,207,447	428,846	635,096	357,923
Expendable for specific operating activities		48,665		32,695
Unrestricted	26,166,944	957,600	21,143,715	1,265,844
Total net position	32,053,391	1,437,666	29,216,583	1,668,417
TOTAL LIABILITIES AND NET POSITION	<u>\$69,057,534</u>	<u>\$ 2,150,545</u>	<u>\$67,841,752</u>	<u>\$ 2,054,794</u>

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	2015		2014	
	<u>Labette Health</u>	<u>Component units</u>	<u>Labette Health</u>	<u>Component units</u>
Operating revenues				
Net patient service revenue	\$58,632,001	\$ -	\$54,569,776	\$ -
Other	<u>3,322,322</u>	<u>304,891</u>	<u>2,662,236</u>	<u>690,465</u>
Total operating revenues	<u>61,954,323</u>	<u>304,891</u>	<u>57,232,012</u>	<u>690,465</u>
Operating expenses				
Salaries and wages	25,038,069	65	25,260,607	2,527
Employee benefits	4,675,915	5	4,941,528	193
Supplies and other	24,848,681	516,787	24,303,465	358,347
Depreciation and amortization	<u>4,595,534</u>	<u>32,176</u>	<u>4,889,579</u>	<u>13,912</u>
Total operating expenses	<u>59,158,199</u>	<u>549,033</u>	<u>59,395,179</u>	<u>374,979</u>
Operating income (loss)	<u>2,796,124</u>	<u>(244,142)</u>	<u>(2,163,167)</u>	<u>315,486</u>
Nonoperating revenues (expenses)				
Ambulance subsidy	99,131		290,792	
Investment income	80,645	11,592	43,776	69,984
Interest expense	(1,710,817)		(1,745,934)	
Noncapital grant and contributions	131,074		61,982	
Other	<u>414,683</u>	<u>1,799</u>	<u>(524,594)</u>	<u>17,609</u>
Total nonoperating revenues (expenses)	<u>(985,284)</u>	<u>13,391</u>	<u>(1,873,978)</u>	<u>87,593</u>
Excess of revenues over (under) expenses before grants, contributions, and sales tax revenue restricted for capital purposes	1,810,840	(230,751)	(4,037,145)	403,079
Capital grants and contributions	453,617		31,933	
Sales tax revenue restricted for capital purchases	572,351		355,187	
Distributions to members				<u>(190,395)</u>
Change in net position	<u>2,836,808</u>	<u>(230,751)</u>	<u>(3,650,025)</u>	<u>212,684</u>
Net position at beginning of year	<u>29,216,583</u>	<u>1,668,417</u>	<u>32,866,608</u>	<u>1,455,733</u>
Net position end of year	<u>\$32,053,391</u>	<u>\$ 1,437,666</u>	<u>\$29,216,583</u>	<u>\$ 1,668,417</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER

D/B/A LABETTE HEALTH

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2015		2014	
	<u>Labette Health</u>	<u>Component units</u>	<u>Labette Health</u>	<u>Component units</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$60,095,209	\$ -	\$56,690,146	\$ -
Payments to or on behalf of employees	(30,511,662)	(70)	(30,130,783)	(2,691)
Payments for supplies and services	(24,229,892)	(200,210)	(23,868,334)	(334,547)
Other receipts and payments	<u>2,669,457</u>	<u>352,934</u>	<u>2,746,071</u>	<u>492,892</u>
Net cash provided by operating activities	<u>8,023,112</u>	<u>152,654</u>	<u>5,437,100</u>	<u>155,654</u>
Cash flows from noncapital financing activities				
Ambulance subsidy	96,004		290,115	
Noncapital grants and contributions	88,488		108,607	
Distributions to members				(69,682)
Net cash provided (used) by noncapital financing activities	<u>184,492</u>		<u>398,722</u>	<u>(69,682)</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(290,203)	-	(2,791,962)	
Capital lease obligations incurred	176,256		1,913,738	
Repayments of long-term obligations	(1,654,265)		(1,414,364)	
Interest paid	(1,755,236)		(1,790,958)	
Capital grants and contributions	111,427		31,933	
Sales tax revenue restricted for capital purchases	572,351		355,187	
Insurance proceeds	<u>410,487</u>			
Net cash used by capital and related financing activities	<u>(2,429,183)</u>	<u>-</u>	<u>(3,696,426)</u>	<u>-</u>
Cash flows from investing activities				
Changes in				
Assets held by trustee	36,125		(48,553)	
Internally designated funds	(521,265)		(265,498)	
Assets restricted by County	(572,351)		(635,096)	
Assets restricted by contributors		(134,936)		22,018
Investments		(172,926)		(155,240)
Investment in affiliate			(182,500)	
Distributions from affiliate			99,182	
Investment income received	<u>82,487</u>	<u>50,703</u>	<u>44,560</u>	<u>48,415</u>
Net cash used by investing activities	<u>(975,004)</u>	<u>(257,159)</u>	<u>(987,905)</u>	<u>(84,807)</u>
Net change in cash and cash equivalents	4,803,417	(104,505)	1,151,491	1,165
Cash and cash equivalents at beginning of year	<u>5,128,216</u>	<u>104,536</u>	<u>3,976,725</u>	<u>103,371</u>
Cash and cash equivalents at end of year	<u>\$ 9,931,633</u>	<u>\$ 31</u>	<u>\$ 5,128,216</u>	<u>\$ 104,536</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2015		2014	
	<u>Labette Health</u>	<u>Component units</u>	<u>Labette Health</u>	<u>Component units</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 2,796,124	\$ (244,142)	\$ (2,163,167)	\$ 315,486
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,595,534	32,176	4,889,579	13,912
Provision for bad debts	6,911,837		7,030,628	
Changes in				
Patient accounts receivable	(6,735,454)		(5,054,098)	
Other receivables	(652,865)		83,835	
Pledges receivable		48,043		(197,573)
Advances receivable	14,056		178,522	
Estimated third-party payor settlements	1,286,825		143,840	
Inventories	(20,356)		(76,220)	
Prepaid expenses	(700)		50,456	
Accounts payable and accrued expenses	<u>(171,889)</u>	<u>316,577</u>	<u>353,725</u>	<u>23,829</u>
Net cash provided by operating activities	<u>\$ 8,023,112</u>	<u>\$ 152,654</u>	<u>\$ 5,437,100</u>	<u>\$ 155,654</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Labette County Medical Center d/b/a Labette Health is owned by Labette County, Kansas (the County), and governed by a nine-member Board of Trustees appointed by the Board of County Commissioners of the County. Labette Health is a 99-bed, not-for-profit general hospital located in Parsons, Kansas. Labette Health can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. Labette Health is a component unit of the County.

The component units discussed in Note A2 are included in Labette Health's reporting entity because of the nature and significance of their relationships with Labette Health.

2. Component units

The financial statements include the financial data of the aggregate discretely presented component units described below. The component units are reported separately to emphasize that they are legally separate from Labette Health.

Labette Health Foundation, Inc. (the Foundation), is a not-for-profit corporation formed to receive, invest, and disburse funds received for the benefit, support, and maintenance of Labette Health. The Foundation is administered by a Board of Trustees, of which three members are appointed by Labette Health's Board of Trustees.

Labette Health Regional Partnerships, Inc. (LHRP), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. LHRP is administered by a five-member Board of Directors of which three members are appointed by Labette Health's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

Labette Health uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Cash and cash equivalents

Labette Health considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

Labette Health provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Labette Health estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the average cost method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; assets restricted by the County for capital asset acquisitions; and assets restricted by contributors for a particular purpose. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

11. Costs of borrowing

Interest costs (including amortization of original issue premiums and discounts) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Original issue premiums and discounts are amortized using the interest method over the term of the related debt. Other costs incurred to issue long-term debt are expensed in the period incurred.

12. Grants and contributions

From time to time, Labette Health receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Restricted resources

When Labette Health has both restricted and unrestricted resources available to finance a particular program, its policy is to use restricted resources before unrestricted resources.

14. Accrued health insurance claims

Labette Health is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for accrued health insurance claims are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

15. Net position

Net position of Labette Health is classified in three components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Labette Health, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

16. Operating revenues and expenses

Labette Health's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is Labette Health's principal activity. Nonexchange revenues, including noncapital grants and contributions and the noncapital ambulance subsidy, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Charity care

Labette Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Labette Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

19. Income taxes

Labette Health is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

LHRP is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

20. Subsequent events

Labette Health has evaluated subsequent events through May 25, 2016, which is the date the financial statements were available to be issued.

21. Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE B - NET PATIENT SERVICE REVENUE

Labette Health has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute and rehabilitation care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per occasion of service. Physician services, other than rural health clinic (RHC) services, rendered to Medicare program beneficiaries are paid based on a prospectively determined fee schedule. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. RHC physician services are paid based on cost reimbursement methodologies. Labette Health is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by Labette Health and audits or reviews thereof by the Medicare administrative contractor. Labette Health's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Labette Health's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2012.

Medicaid - Inpatient acute and rehabilitation care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on a fee-for-service basis.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the provider, and other factors. Labette Health qualified for these disproportionate share payments during both 2015 and 2014.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Labette Health has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to Labette Health under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of gross and net patient service revenue follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 163,194,366	\$ 153,250,102
Contractual adjustments	(95,408,984)	(89,483,398)
Provision for bad debts	(6,911,837)	(7,030,628)
Charity care	<u>(2,241,544)</u>	<u>(2,166,300)</u>
Net patient service revenue	<u>\$ 58,632,001</u>	<u>\$ 54,569,776</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 38 percent and 5 percent, respectively, of Labette Health's net patient service revenue during 2015, and 37 percent and 6 percent, respectively, of Labette Health's net patient service revenue during 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

In 2009, Centers for Medicare & Medicaid Services (CMS) expanded the Recovery Audit Contractor (RAC) program to all 50 states. The RAC program was implemented to detect Medicare overpayments not identified through existing claims review mechanisms and uses private companies paid on a contingency basis to review claims for overpayments. Although Labette Health believes its claims submitted to the Medicare program are accurate, Labette Health has had claims audited and denied by the RAC program. For the year ended December 31, 2014, Labette Health estimated that approximately \$876,000 in denied claims would be overturned based on a settlement agreement entered into with CMS. This amount is included in estimated third-party payor settlements in the statement of net position.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

Labette Health recognizes revenue for EHR incentive payments when the hospital facility and physician practices have attested that they have demonstrated meaningful use of certified EHR technology for the applicable period and have complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by CMS. During the years ended December 31, 2015 and 2014, Labette Health recognized approximately \$506,000 and \$964,000, respectively, of revenue for EHR incentive payments. These amounts are included in other operating revenues in the statements of revenues, expenses, and changes in net position.

Labette Health incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of Labette Health's recognition of EHR incentive payments as revenue.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize Labette Health with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of Labette Health.

At December 31, 2015, the carrying amount of Labette Health's bank deposits, including certificates of deposit, was \$20,302,595 and the bank balances were \$21,418,045. Of the bank balances, \$1,395,875 were covered by federal depository insurance and \$19,587,121 were covered by collateral held by third-party banks, but not registered in Labette Health's name, and \$435,049 was unsecured and uncollateralized.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2015</u>	<u>2014</u>
Internally designated for capital assets		
Cash	\$ 193,488	\$ 192,867
Certificates of deposit	8,970,427	8,449,783
Accrued interest receivable	3,330	3,364
	<u>\$ 9,167,245</u>	<u>\$ 8,646,014</u>
Under indenture agreement - held by trustee		
Cash and money market funds	\$ 789,896	\$ 833,156
Certificates of deposit	426,000	427,809
U.S. government agency bonds	2,236,791	2,229,655
	<u>\$ 3,452,687</u>	<u>\$ 3,490,620</u>
By County for capital assets		
Cash	<u>\$ 1,207,447</u>	<u>\$ 635,096</u>
By contributors for capital acquisitions and specific operating activities		
Cash	\$ 239,901	\$ 120,400
Common stocks	35,007	35,007
Equity mutual funds	99,497	37,639
Pledges receivable	100,606	197,572
Other receivable	2,500	
	<u>\$ 477,511</u>	<u>\$ 390,618</u>

NOTE F - INVESTMENTS

The Foundation's investments are stated at fair value. The composition of its investments is as follows:

	<u>2015</u>	<u>2014</u>
Money market mutual funds	\$ 20,669	\$ 27,575
Common stocks	163,414	152,804
Equity mutual funds	537,800	476,792
Fixed income mutual funds	449,744	380,641
	<u>\$ 1,171,627</u>	<u>\$ 1,037,812</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE G - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2015			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers and retirements</u>	<u>Ending balance</u>
Land	\$ 849,026	\$ -	\$ -	\$ 849,026
Buildings	55,529,358		(55,604)	55,584,962
Fixed equipment	9,523,131		(62,828)	9,585,959
Major movable equipment	<u>20,498,802</u>	<u>514,263</u>	<u>668,432</u>	<u>20,344,633</u>
Totals at historical cost	<u>86,400,317</u>	<u>514,263</u>	<u>550,000</u>	<u>86,364,580</u>
Less accumulated depreciation and amortization				
Buildings	28,047,501	2,757,548		30,805,049
Fixed equipment	7,017,698	361,203		7,378,901
Major movable equipment	<u>15,097,618</u>	<u>1,476,783</u>	<u>495,541</u>	<u>16,078,860</u>
	<u>50,162,817</u>	<u>4,595,534</u>	<u>495,541</u>	<u>54,262,810</u>
Construction in progress	36,237,500	(4,081,271)	54,459	32,101,770
	<u>210,690</u>	<u>135,928</u>	<u>241,088</u>	<u>105,530</u>
Capital assets, net	<u>\$ 36,448,190</u>	<u>\$ (3,945,343)</u>	<u>\$ 295,547</u>	<u>\$ 32,207,300</u>
	2014			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers and retirements</u>	<u>Ending balance</u>
Land	\$ 829,501	\$ -	\$ (19,525)	\$ 849,026
Buildings	54,202,312	7,210	(1,319,836)	55,529,358
Fixed equipment	8,814,736	356,335	(352,060)	9,523,131
Major movable equipment	<u>20,080,495</u>	<u>2,045,542</u>	<u>1,627,235</u>	<u>20,498,802</u>
Totals at historical cost	<u>83,927,044</u>	<u>2,409,087</u>	<u>(64,186)</u>	<u>86,400,317</u>
Less accumulated depreciation and amortization				
Buildings	24,652,078	2,861,480	(533,943)	28,047,501
Fixed equipment	6,566,766	439,026	(11,906)	7,017,698
Major movable equipment	<u>15,135,562</u>	<u>1,589,073</u>	<u>1,627,017</u>	<u>15,097,618</u>
	<u>46,354,406</u>	<u>4,889,579</u>	<u>1,081,168</u>	<u>50,162,817</u>
Construction in progress	37,572,638	(2,480,492)	(1,145,354)	36,237,500
	<u>1,000,868</u>	<u>230,821</u>	<u>1,020,999</u>	<u>210,690</u>
Capital assets, net	<u>\$ 38,573,506</u>	<u>\$ (2,249,671)</u>	<u>\$ (124,355)</u>	<u>\$ 36,448,190</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE G - CAPITAL ASSETS - Continued

Construction in progress at December 31, 2015, consists primarily of costs incurred to date for various renovations to Labette Health's facilities and equipment purchased but not yet placed in service.

At December 31, 2015, Labette Health's outstanding commitments for equipment were approximately \$850,000.

NOTE H - ADVANCES RECEIVABLE

Labette Health has determined that recruitment of physicians to serve the residents of Labette County is in the best interest of Labette Health, its patients, and the community, and will enable Labette Health to enhance its ability to meet the health care needs of the community's residents. To accomplish this, Labette Health has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in Labette Health's service area. In return, the physicians agree to provide professional services for the residents of Parsons and Labette County over periods varying from three to six years. The financial assistance is rendered either in the form of interest-bearing loans from Labette Health to the physicians or in the form of contractual liquidated damages clauses which require liquidated damages to be paid to Labette Health if the service obligation is not met. Upon establishment of their practices, principal or liquidated damages and the accumulated interest on loans are forgiven ratably over the required service periods. If the physicians do not establish a medical practice, or if they leave the community prior to completion of the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, as applicable.

Labette Health's future exposure to credit loss on these agreements is dependent upon the performance of the physicians under these agreements. Outstanding commitments for future advances were approximately \$283,998 at December 31, 2015.

LABETTE COUNTY MEDICAL CENTER
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December 31, 2015 and 2014

NOTE I - HEALTH INSURANCE CLAIMS

Labette Health sponsors a self-insured employee health insurance plan. Labette Health has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over \$75,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Labette Health has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement:

	<u>2015</u>	<u>2014</u>
Estimated net health insurance claims payable at beginning of year	\$ 207,234	\$ 204,808
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,165,921	2,344,731
Participant contributions	891,064	918,966
Payments made for claims and related expenses	<u>(2,995,971)</u>	<u>(3,261,271)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 268,248</u>	<u>\$ 207,234</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE J - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2015</u>	<u>2014</u>
5.00% - 5.75% Labette County, Kansas Hospital Refunding and Improvement Revenue Bonds, Series A, 2007; issued on July 19, 2007, in the original amount of \$24,765,000; due serially through September 1, 2037, with principal payments beginning on September 1, 2020, including unamortized premium of \$440,244 in 2015 and \$470,780 in 2014	\$ 25,205,244	\$ 25,235,780
7.00% Labette County, Kansas Taxable Hospital Refunding and Improvement Revenue Bonds, Series B, 2007; issued on July 19, 2007, in the original amount of \$6,435,000; due serially through September 1, 2019	2,840,000	3,435,000
Capital lease obligations; imputed interest rates from 1.95% to 8.47%; collateralized by leased equipment with an amortized cost of \$3,251,686 at December 31, 2015	<u>2,935,742</u>	<u>3,818,751</u>
	30,980,986	32,489,531
Less current maturities	<u>1,785,222</u>	<u>1,582,552</u>
Long-term obligations, less current maturities	<u>\$ 29,195,764</u>	<u>\$ 30,906,979</u>

The following is a summary of changes in long-term obligations:

	Capital lease obligations	Hospital revenue bonds	Total long-term obligations
Outstanding at January 1, 2014	\$ 2,759,377	\$29,261,317	\$32,020,694
Obligations incurred	1,913,738		1,913,738
Principal payments	(854,364)	(560,000)	(1,414,364)
Amortization of bond premium	<u> </u>	<u>(30,537)</u>	<u>(30,537)</u>
Outstanding at December 31, 2014	3,818,751	28,670,780	32,489,531
Obligations incurred	176,256		176,256
Principal payments	(1,059,265)	(595,000)	(1,654,265)
Amortization of bond premium	<u> </u>	<u>(30,536)</u>	<u>(30,536)</u>
Outstanding at December 31, 2015	<u>\$ 2,935,742</u>	<u>\$28,045,244</u>	<u>\$30,980,986</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE J - LONG-TERM OBLIGATIONS - Continued

On July 19, 2007, the County issued \$24,765,000 in Hospital Refunding and Improvement Revenue Bonds, Series A, 2007, and \$6,435,000 in Taxable Hospital Refunding and Improvement Revenue Bonds, Series B, 2007 (the 2007 bonds), for the benefit of Labette Health pursuant to a Bond Trust Indenture dated June 1, 2007. The proceeds of the 2007 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) pay for renovations and additions to Labette Health's facilities, (2) refund the Hospital Refunding Revenue Bonds, Series A, 1996, and Series A, 2001, previously issued for the benefit of Labette Health, (3) refinance an outstanding bank loan, (4) fund a debt service reserve fund for the 2007 bonds, and (5) pay for certain costs related to issuance of the 2007 bonds.

The indenture agreement for the 2007 bonds requires Labette Health to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

Such amounts were maintained and are included with assets limited as to use in the financial statements. The obligations of Labette Health under the indenture agreement are secured by a pledge of its unrestricted revenues, subject to the right of Labette Health to dispose of or encumber property as defined and permitted in the indenture agreement. The indenture agreement also includes certain restrictive covenants relating to the disposition of property, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the indenture agreement regarding the level of days cash on hand requires that those levels equal or exceed 45 days. The covenant in the indenture agreement regarding the level of fees and rates charged requires that fees and rates for services be set at levels sufficient for Labette Health to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt. That ratio value was 238 percent and 99 percent for the years ended December 31, 2015 and 2014, respectively.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 640,000	\$ 1,610,000	\$ 2,250,000
2017	685,000	1,565,200	2,250,200
2018	730,000	1,517,250	2,247,250
2019	785,000	1,466,150	2,251,150
2020	830,000	1,411,200	2,241,200
2021 - 2025	4,870,000	6,345,175	11,215,175
2026 - 2030	6,435,000	4,782,563	11,217,563
2031 - 2035	8,505,000	2,707,675	11,212,675
2036 - 2037	4,125,000	359,087	4,484,087
	<u>\$ 27,605,000</u>	<u>\$ 21,764,300</u>	<u>\$ 49,369,300</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE J - LONG-TERM OBLIGATIONS - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,145,222	\$ 65,195	\$ 1,210,417
2017	839,966	34,661	874,627
2018	723,218	15,327	738,545
2019	218,433	2,547	220,980
2020	<u>8,903</u>	<u>3,503</u>	<u>12,406</u>
Total minimum lease payments	<u>\$ 2,935,742</u>	<u>\$ 121,233</u>	<u>\$ 3,056,975</u>

Total interest costs are summarized as follows:

	<u>2015</u>	<u>2014</u>
Total interest incurred	\$ 1,741,353	\$ 1,776,471
Amortization of bond premium	<u>(30,536)</u>	<u>(30,537)</u>
Interest expense	<u>\$ 1,710,817</u>	<u>\$ 1,745,934</u>

NOTE K - DEFINED CONTRIBUTION PENSION PLANS

Labette Health sponsors a defined contribution pension plan that provides pension benefits for substantially all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plan are as follows.

Employees become eligible for employer contributions after completing one year of service. Labette Health contributes a percentage of gross compensation based on the eligible employee's years of service as follows: 2 percent if more than one year but less than 5 years of service; 4 percent if five or more years of service but less than fifteen; and 6 percent if fifteen or more years of service. Labette Health may also make a discretionary matching contribution of participant contributions to the plan. The contribution cannot exceed a percentage of gross compensation based on the eligible employee's years of service as follows: 1 percent if more than five years of service but less than ten years of service, and 2 percent if more than ten years of service.

The employees are not required to make contributions to the plan but may elect to contribute from 1 percent to 20 percent of the participant's compensation subject to maximum limits as defined by the Internal Revenue Service.

Labette Health's contributions for each employee are fully vested after 10 years of continuous service.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE K - DEFINED CONTRIBUTION PENSION PLANS - Continued

For the years ended December 31, 2015 and 2014, Labette Health and covered employees made contributions to the plan as follows:

	<u>2015</u>	<u>2014</u>
Employer contributions	\$ 447,094	\$ 454,735
Employee contributions	<u>428,061</u>	<u>395,815</u>
	<u>\$ 875,155</u>	<u>\$ 850,550</u>

Labette Health has entered into deferred compensation agreements with certain employees. These agreements are eligible deferred compensation plans under Section 401(a) or 457(b) of the Internal Revenue Code. The plans can be amended by mutual consent of Labette Health and the plans' participants. All assets of the plans are held by a third-party investment company for the sole benefit of the employee and the employee's designated beneficiary. The plans generally provide for employer contributions based on the employees' years of service. The employees are not required to make contributions to the plans but may elect to contribute a percentage of compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions become fully vested after periods defined in each plan. For the years ended December 31, 2015 and 2014, Labette Health and covered employees made contributions to these plans as follows:

	<u>2015</u>	<u>2014</u>
Employer contributions	\$ 194,133	\$ 233,611
Employee contributions	<u>64,344</u>	<u>74,475</u>
	<u>\$ 258,477</u>	<u>\$ 308,086</u>

NOTE L - CONCENTRATION OF CREDIT RISK

Labette Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	41.1%	40.6%
Medicaid	9.7	11.0
Blue Cross	8.9	10.2
Other insurers	19.2	18.8
Patients	<u>21.1</u>	<u>19.4</u>
	<u>100.0%</u>	<u>100.0%</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE M - COMPONENT UNITS' CONDENSED FINANCIAL INFORMATION

The following is condensed financial data for the discretely presented component units of Labette Health as of December 31, 2015 and 2014, and for the years then ended. The Foundation is a major component unit due to the considerable financial benefit it provides to Labette Health.

	2015		2014	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Cash and cash equivalents	\$ -	\$ 31	\$ 104,469	\$ 67
Investments	1,171,627		1,037,812	
Total current assets	1,171,627	31	1,142,281	67
Assets limited as to use	477,511		390,618	
Capital assets, net		363,454		385,705
Other assets	137,922		136,123	
Total assets	\$ 1,787,060	\$ 363,485	\$ 1,669,022	\$ 385,772
Current liabilities	\$ 494	\$ -	\$ 1,053	\$ 120
Due to Labette Health	348,210	364,175		385,204
Total liabilities	348,704	364,175	1,053	385,324
Net position				
Net investment in capital assets		2,555		11,955
Restricted				
Expendable for Labette Health capital acquisitions	428,846		357,923	
Expendable for specific Labette Health operating activities	48,665		32,695	
Unrestricted	960,845	(3,245)	1,277,351	(11,507)
Total net position	1,438,356	(690)	1,667,969	448
Total liabilities and net position	\$ 1,787,060	\$ 363,485	\$ 1,669,022	\$ 385,772

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE M - COMPONENT UNITS' CONDENSED FINANCIAL INFORMATION - Continued

	2015		2014	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Rental revenue from Labette Health	\$ -	\$ 19,052	\$ -	\$ 25,403
Other operating revenues	285,839	-	649,486	15,576
Total operating revenues	285,839	19,052	649,486	40,979
Salaries and wages, employee benefits, supplies, and other expenses	528,843	(11,986)	297,378	63,689
Depreciation and amortization		32,176		13,912
Total operating expenses	528,843	20,190	297,378	77,601
Operating income (loss)	(243,004)	(1,138)	352,108	(36,622)
Nonoperating revenues	13,391		87,593	
Excess of revenues over (under) expenses before grants and contributions restricted for capital purposes	(229,613)	(1,138)	439,701	(36,622)
Distributions to Labette Health				(190,395)
Change in net position	(229,613)	(1,138)	439,701	(227,017)
Net position beginning of year	1,667,969	448	1,228,268	227,465
Net position end of year	\$ 1,438,356	\$ (690)	\$ 1,667,969	\$ 448

NOTE N - RISK MANAGEMENT

For the years ended December 31, 2015 and 2014, Labette Health was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. Labette Health is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against Labette Health for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy period of \$3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2016, for the policy period from January 1, 2016 to January 1, 2017.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE N - RISK MANAGEMENT - Continued

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, Labette Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Labette Health purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE O - COMMITMENTS AND CONTINGENCIES

Labette Health purchases professional and general liability insurance to cover medical malpractice and other liability claims (Note N). There are known claims and incidents that have been asserted. These claims have been referred to Labette Health's insurance carriers and are in various stages of processing. No accrual for loss contingencies related to these items has been made in the financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated.

NOTE P - RELATED PARTY TRANSACTIONS

Labette Health received \$457,004 and \$40,944 of contributions from the Foundation during 2015 and 2014, respectively. Labette Health incurred \$107,264 and \$129,968 in salary expense on behalf of the Foundation during 2015 and 2014, respectively.

Labette Health paid rent to LHRP totaling \$19,052 and \$25,403 during 2015 and 2014, respectively.

At December 31, 2015, Labette Health had approximately \$1,050,000 of deposits with a local bank in addition to an outstanding equipment lease of approximately \$1,240,000. A member of Labette Health's board of trustees is an executive officer of the local bank.

NOTE Q - COUNTY TAX PROCEEDS

On June 26, 2001, voters of the County approved a .25 percent health care retailers' sales tax to be used as a source of funding for the provision of emergency medical services. The County has agreed to pay Labette Health an amount equal to the lesser of 100 percent of the sales tax or 95 percent of Labette Health's direct loss attributable to the provision of ambulance services. 100 percent of the sales tax exceeded 95 percent of Labette Health's direct loss attributable to the provision of ambulance services by \$572,351 during 2015 and by \$355,187 during 2014. The County has restricted these amounts to use for future capital acquisitions for ambulance services.

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December 31, 2015 and 2014

NOTE R - SUBSEQUENT EVENTS

Subsequent to December 31, 2015, Labette Health committed to the purchase of approximately \$572,000 of property and equipment. In addition, LHRP committed to purchase land for approximately \$300,000.